

View: Strong pricing boosts margins, price sustainability key; Buy

ACC posted a strong set of numbers with 7.8%/ 25.3%/ 38.6% YoY growth in revenue/ EBITDA/ APAT to ₹41.5 bn/ ₹7.8 bn/ ₹4.5 bn in Q2CY19 driven by strong 8.4% YoY/ 10.3% QoQ realization growth. We expect 6.8/ 25.1%/ 21% revenue/ EBITDA/ APAT CAGR over CY18-20E led by 1.1%/ 3.7% volume growth and 5.8%/ 2% cement realization growth in CY19E/ CY20E. Considering ACC's healthy cash flow & RoE, net cash position, and 5.9mtpa (17.7% increase), current valuation of 10x/ 9.1x CY19E/20E EV/EBITDA is attractive. We recommend BUY with a TP of ₹1868 (11x CY20E EV/EBITDA). Given ACC's high capacity utilization at 86%/ 86%/ 89% for Q2CY19/ CY19E CY20E (leaves little headroom for volume growth), sustainability of current cement realization is more important for profitability.

EBITDA/tn at 7 year high backed by robust realization

Better than anticipated realization (+8.4% YoY/ +10.3% QoQ to ₹5,764) and muted volume (-0.6% YoY/ 4% QoQ to 7.2mt) helped ACC report highest ever EBITDA/tn in 7 years to ₹1,086 (+26% YoY/ +53.4% QoQ). We believe ACC's rising share of valued added solutions (in the product mix) is also supporting to higher realization.

Strong volume growth continues in RMC segment

ACC's RMS segment continue to witness strong volume growth of 10.4% YoY to 0.85mn.m³ during Q2CY19, which helped RMC revenue to grow by 14.1% to ₹3.6 bn (8.8% of total revenue).

5.9MTPA Capacity addition plan augurs well

ACC announced clinker capacity addition of 3mtpa and grinding capacity addition of 5.9mtpa during 4QCY18. The expansion plan includes 3mtpa clinker capacity and 1mtpa cement capacity as part of greenfield integrated plant at Ametha, District Katni, MP, expansion of the existing GU at Tikaria, UP (capacity of 1.6mtpa) and a third GU in UP (cement capacity 2.2mtpa). The company also plans to set up additional cement grinding of 1.1mtpa at the existing location at Sindri, Jharkhand. These plants are expected to be operational within next 3 years which will support volume growth. ACC plans to spend to ₹30 bn capex on these capacity additions.

Q2CY19 Result (₹ Mn)

Particulars	Q2CY19	Q2CY18	YoY (%)	Q1CY19	QoQ (%)
Revenue	41,497	38,483	7.8	39,191	5.9
Total Expense	33,680	32,244	4.5	33,882	(0.6)
EBITDA	7,817	6,239	25.3	5,309	47.2
Depreciation	1,460	1,481	(1.4)	1,467	(0.5)
EBIT	6,357	4,757	33.6	3,842	65.5
Other Income	519	316	64.4	1,525	(66.0)
Interest	199	275	(27.8)	209	(4.7)
EBT	6,677	4,798	33.6	5,159	29.4
Tax	2,164	1,543	40.3	1,774	22.0
RPAT	4,513	3,255	38.6	3,384	33.4
APAT	4,513	3,255	38.6	2,389	88.9
			(bps)		(bps)
Gross Margin (%)	39.3	39.2	4	34.6	472
EBITDA Margin (%)	18.8	16.2	263	13.5	529
NPM (%)	10.9	8.5	242	8.6	224
Tax Rate (%)	32.4	32.2	26	34.4	(198)
EBIT Margin (%)	15.3	12.4	296	9.8	552

CMP	₹ 1,544
Target / Upside	₹ 1,868 / 21%
BSE Sensex	38,397
NSE Nifty	11,419

Scrip Details

Equity / FV	₹ 1,880mn / ₹ 10
Market Cap	₹ 290bn
	US\$ 4bn
52-week High/Low	₹ 1,769/₹ 1,262
Avg. Volume (no)	822,358
NSE Symbol	ACC
Bloomberg Code	ACC IN

Shareholding Pattern Jun'19(%)

Promoters	54.5
MF/Banks/FIs	20.5
FII	10.2
Public / Others	14.8

Valuation (x)

	CY18A	CY19E	CY20E
P/E	28.8	20.3	19.7
EV/EBITDA	12.7	10.0	9.1
ROE (%)	15.1	12.9	12.1
RoACE (%)	15.1	12.9	12.1

Estimates (₹ mn)

	CY18A	CY19E	CY20E
Revenue	148,014	159,352	168,699
EBITDA	20,446	25,242	26,949
PAT	15,066	14,305	14,731
EPS (₹)	53.6	76.2	78.4

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Exhibit 1: ACC's per ton matrix

Cost/tn Analysis(₹)	Q2CY19	Q2CY18	YoY (%)	Q1CY19	QoQ (%)	HFY19	HFY18	YoY (%)
Net Sales per ton	5,764	5,315	8.4	5,225	10.3	5,489	5,208	5.4
Cost per ton	4,678	4,454	5.0	4,518	3.5	4,596	4,431	3.7
Raw Material Cost	916	758	20.7	949	(3.5)	932	777	19.9
Employee Expenses	282	354	(20.4)	266	6.0	274	317	(13.6)
Power and Fuels	1,133	1,037	9.2	1,055	7.4	1,093	1,045	4.6
Freight Expenses	1,451	1,434	1.2	1,415	2.5	1,433	1,422	0.8
Other expenses	897	870	3.0	832	7.7	864	869	(0.6)
EBITDA per ton	1,086	862	26.0	708	53.4	893	777	14.9

Source: Company, DART

Exhibit 2: ACC's cost as a % of Net Sales

Particulars	Q2CY19	Q2CY18	bps	Q1CY19	bps	HFY19	HFY18	bps
Raw Material Cost	15.9	14.3	162	18.2	(227)	17.0	14.9	206
Employee Expenses	4.9	6.7	(177)	5.1	(20)	5.0	6.1	(110)
Power and Fuels	19.7	19.5	14	20.2	(54)	19.9	20.1	(15)
Freight Expenses	25.2	27.0	(180)	27.1	(191)	26.1	27.3	(120)
Other expenses	15.6	16.4	(81)	15.9	(37)	15.7	16.7	(96)

Source: Company, DART

Exhibit 3: Segmental Details (₹ mn)

Segment Revenue(₹)	Q2CY19	Q2CY18	YoY (%)	Q1CY19	QoQ (%)	HFY19	HFY18	YoY (%)
Cement	38,413	35,814	7.3	35,871	7.1	74,284	69,384	7.1
Ready Mix Concrete	3,658	3,207	14.1	3,930	(6.9)	7,588	6,523	16.3
Total	42,071	39,020	7.8	39,801	5.7	81,872	75,907	7.9
Less Intersegment Revenue	574	538	6.7	610	(5.9)	1,184	1,179	0.4
Net Sales	41,497	38,483	7.8	39,191	5.9	80,688	74,728	8.0
Segment Result EBIT								
Cement	6,308	4,435	42.2	3,577	76.3	9,885	7,653	29.2
EBIT margin (%)	16	12	404bps	10	65bps	13	11	228bps
Ready mix concrete	162	274	(40.9)	402	(59.6)	564	599	(5.9)
EBIT margin (%)	4	9	(412bps)	10	(57bps)	7	9	(175bps)
Total	6,470	4,709	37.4	3,979	62.6	10,449	8,252	26.6

Source: Company, DART

Exhibit 4: ACC's Sales metrics (mt)

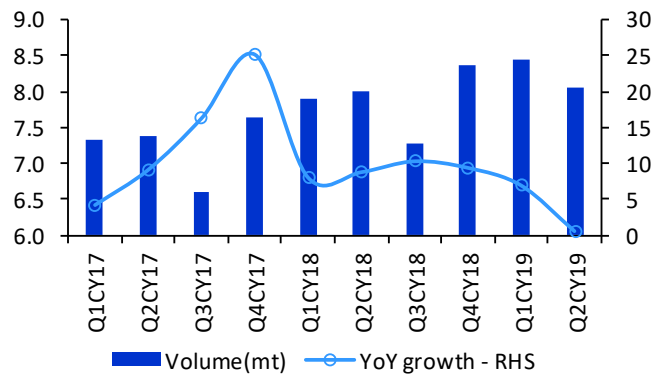
Particulars	Q2CY19	Q2CY18	YoY (%)	Q1CY19	QoQ (%)	HFY19	HFY18	YoY (%)
Grey Cement Sales (Incl. clinker)	7.2	7.2	(0.6)	7.5	(4.0)	14.7	14.4	2.4
RMC Volumes	0.9	0.8	10.4	0.9	(9.6)	1.8	1.6	14.7
Total Volumes	8.1	8.0	0.5	8.4	(4.6)	16.5	15.9	3.6

Source: Company, DART

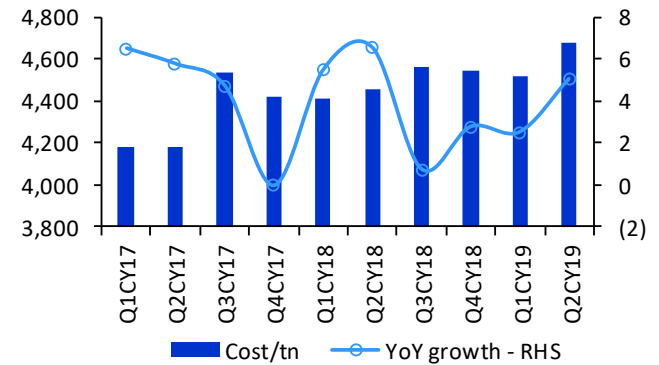
Exhibit 5: Valuation

Assumed EV/EBITDA multiple (x)	11
EBITDA	26,949
EV	2,96,438
Less: Net Debt	(54,439)
MCap	3,50,877
Shares o/s	188
Value/share	1,868
CMP (₹)	1,550
Upside (%)	21

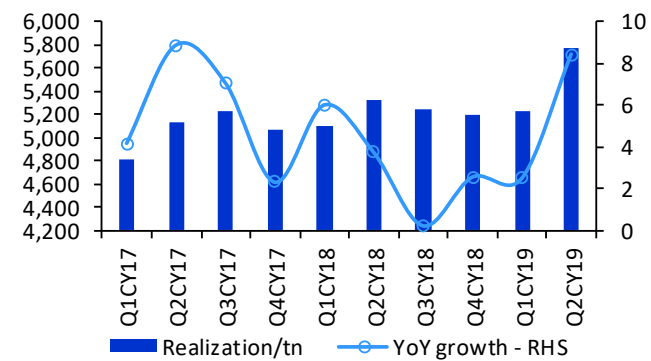
Source: Company, DART

Exhibit 6: Volume (mt)


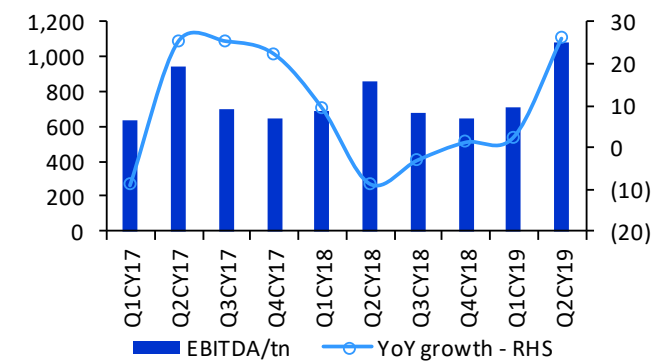
Source: Company, DART

Exhibit 7: Cost/tn (₹)


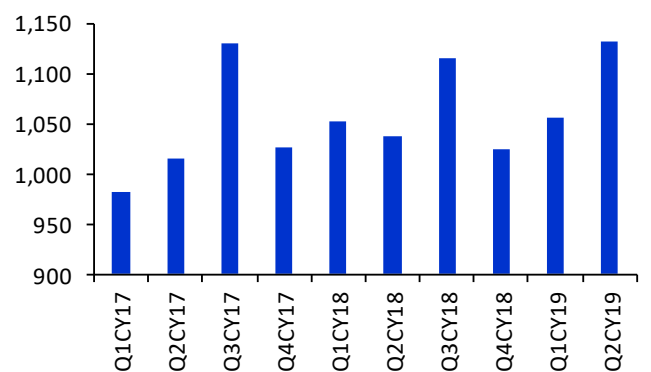
Source: Company, DART

Exhibit 8: Realisation/tn (₹)


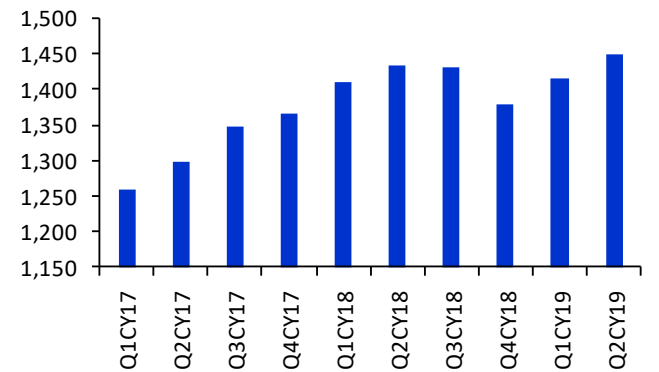
Source: Company, DART

Exhibit 9: EBITDA/tn (₹)


Source: Company, DART

Exhibit 10: Power & fuel cost/tn (₹)


Source: Company, DART

Exhibit 11: Freight cost/tn (₹)


Source: Company, DART

Profit and Loss Account (Standalone)

(₹ Mn)	CY17A	CY18A	CY19E	CY20E
Revenue	132,626	148,014	159,352	168,699
Total Expense	113,535	127,567	134,109	141,750
COGS	19,685	23,345	26,790	28,341
Employees Cost	8,190	8,811	8,172	8,604
Other expenses	85,661	95,412	99,148	104,805
EBIDTA	19,091	20,446	25,242	26,949
Depreciation	6,401	5,996	6,314	6,754
EBIT	12,690	14,450	18,928	20,195
Interest	1,023	892	807	815
Other Income	1,317	1,385	2,854	2,283
Exc. / E.O. items	0	0	0	0
EBT	12,984	14,943	20,975	21,663
Tax	3,829	(123)	6,670	6,932
RPAT	9,155	15,066	14,305	14,731
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	9,155	10,060	14,305	14,731

Balance Sheet (Standalone)

(₹ Mn)	CY17A	CY18A	CY19E	CY20E
Sources of Funds				
Equity Capital	1,880	1,880	1,880	1,880
Minority Interest	0	0	0	0
Reserves & Surplus	91,775	103,397	114,533	126,095
Net Worth	93,655	105,277	116,413	127,975
Total Debt	592	0	0	0
Net Deferred Tax Liability	5,414	6,631	6,631	6,631
Total Capital Employed	99,660	111,908	123,044	134,606

Applications of Funds

Net Block	72,410	70,494	75,180	84,426
CWIP	2,617	3,922	3,922	3,922
Investments	2,302	2,302	2,302	2,302
Current Assets, Loans & Advances	71,560	83,533	94,910	101,976
Inventories	14,040	16,786	16,590	17,101
Receivables	6,682	8,683	10,478	10,168
Cash and Bank Balances	26,954	30,003	38,123	44,439
Loans and Advances	410	789	541	618
Other Current Assets	23,475	27,273	29,177	29,650
Less: Current Liabilities & Provisions	49,229	48,343	53,269	58,020
Payables	18,105	19,227	19,646	20,799
Other Current Liabilities	31,124	29,116	33,623	37,221
sub total				
Net Current Assets	22,331	35,190	41,641	43,957
Total Assets	99,660	111,908	123,044	134,606

E – Estimates

Important Ratios (Standalone)

Particulars	CY17A	CY18A	CY19E	CY20E
(A) Margins (%)				
Gross Profit Margin	85.2	84.2	83.2	83.2
EBIDTA Margin	14.4	13.8	15.8	16.0
EBIT Margin	9.6	9.8	11.9	12.0
Tax rate	29.5	(0.8)	31.8	32.0
Net Profit Margin	6.9	10.2	9.0	8.7
(B) As Percentage of Net Sales (%)				
COGS	14.8	15.8	16.8	16.8
Employee	6.2	6.0	5.1	5.1
Other	64.6	64.5	62.2	62.1
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	12.4	16.2	23.5	24.8
Inventory days	39	41	38	37
Debtors days	18	21	24	22
Average Cost of Debt	187.4	301.5		
Payable days	50	47	45	45
Working Capital days	61	87	95	95
FA T/O	1.8	2.1	2.1	2.0
(D) Measures of Investment				
AEPS (₹)	48.7	53.6	76.2	78.4
CEPS (₹)	82.8	85.5	109.8	114.4
DPS (₹)	17.0	17.0	15.0	14.0
Dividend Payout (%)	34.9	31.7	19.7	17.9
BVPS (₹)	498.7	560.6	619.9	681.5
RoANW (%)	10.1	15.1	12.9	12.1
RoACE (%)	10.5	15.1	12.9	12.1
RoAIC (%)	17.3	18.7	22.7	23.1
(E) Valuation Ratios				
CMP (₹)	1544	1544	1544	1544
P/E	31.7	28.8	20.3	19.7
Mcap (₹ Mn)	289,878	289,878	289,878	289,878
MCap/ Sales	2.2	2.0	1.8	1.7
EV	263,516	259,875	251,755	245,439
EV/Sales	2.0	1.8	1.6	1.5
EV/EBITDA	13.8	12.7	10.0	9.1
P/BV	3.1	2.8	2.5	2.3
Dividend Yield (%)	1.1	1.1	1.0	0.9
(F) Growth Rate (%)				
Revenue	20.7	11.6	7.7	5.9
EBITDA	29.5	7.1	23.5	6.8
EBIT	46.1	13.9	31.0	6.7
PBT	35.7	15.1	40.4	3.3
APAT	30.5	9.9	42.2	3.0
EPS	30.5	9.9	42.2	3.0

Cash Flow (Standalone)

(₹ Mn)	CY17A	CY18A	CY19E	CY20E
CFO	18,762	15,548	11,181	24,061
CFI	(5,180)	(3,846)	(3,678)	(12,106)
CFF	(4,201)	(4,221)	(4,411)	(3,835)
FCFF	13,574	10,210	6,004	13,061
Opening Cash	13,556	17,778	26,902	30,003
Closing Cash	24,623	26,954	30,003	38,123

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

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